



COUNTY OF KAUAI

# Office of the County Auditor

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## 2013 Budget Presentation

April 5, 2012

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County Auditor

## Office of the County Auditor

### Mission

In the 2008 General Election, a charter amendment to establish the office of the auditor was overwhelmingly approved by the voters, receiving 75% of the votes. The office is staffed with the county auditor, audit manager, staff auditor, audit analyst and a departmental staff assistant.

Our mission is to promote honest, efficient, effective and accountable government for the County of Kauaʻi through carefully selected audits of critical areas.

### Goals

- Goal 1: To serve as a catalyst for positive change throughout county operations.
- Goal 2: To help ensure that the county's scarce resources are used effectively, efficiently and economically.
- Goal 3: To inspire public trust by safeguarding the county's financial integrity by having annual financial audits done by outside auditors and conducting in-house performance audits.

### Evaluation of FY2011-12 Objectives

In furtherance of its goals, the Office of the County Auditor pursued the goals described below. The objectives, whether they were achieved, and obstacles or challenges are shown in the following matrix.

Objective	Achieved?	Obstacles or challenges
Produce the county-wide FY2010-11 Comprehensive Annual Financial Report (CAFR). (Goals 1, 2, 3)	Yes. Draft of the CAFR was submitted to the county council on 12/9/11. Presentation took place on 12/15/11.	None
Complete 3 to 5 audits during the fiscal year. (Goals 1, 2)		

A. Audit 1: Fuel Audit. (Phase 1)	A. Yes. Scheduled for completion during the fiscal year. Fuel Phase 1 draft issued to auditees and final report expected to be issued in FY2011-12.	A. None.
B. Audit 2: Audit of County's Cash Management Practices and Controls.	B. Work-in-progress. To be issued in FY2011-12.	B. None.
C. Audit 3: Audit of County Capital Project Management. (Road Resurfacing Program)	C. Fieldwork is substantially completed and analysis is being conducted. We anticipate issuing a report in FY2011-12.	C. County road records are scarce, non-existent or incomplete, making historical research difficult.
Other projects contributing to goals:  Conduct pre-audit assessments. (Goals 1, 2)		
A. Hazardous work conditions at the Kekaha Landfill.	A. Report to be issued in FY2011-12.	A. None at this time.
B. Sick leave use.	B. Research being conducted. Sick leave pre-audit assessment to be completed in FY2011-12.	B. None at this time.
C. Solid waste overtime compensation practices.	C. Entrance conference held and fieldwork is in process.	C. None at this time.

<p>Other audits being conducted:</p> <p>A. Audit of County's Program to Manage Employee Costs: Furlough</p> <p>B. Audit of County's Program to Manage Employee Costs: Partial Hiring Freeze.</p> <p>C. Pre-audit assessment of selected issues regarding the enforcement of planning and building permit conditions.</p>	<p>A. Fieldwork being conducted. It is anticipated that the audit will be completed by 12/31/12.</p> <p>B. Fieldwork being conducted. It is anticipated that the audit will be completed in FY2012-13.</p> <p>C. Entrance conference held and fieldwork is in process.</p>	<p>A. Delay caused by finance department in providing the necessary data to the auditor's office. In addition, the data base provided was incomplete, and resulted in extra costs for work by the consultant to bridge the gaps in the data base.</p> <p>B. County hiring records are maintained in paper form, on index cards. Data had to be manually extracted and converted to electronic form for analysis by the auditor's office, resulting in delays and additional costs.</p> <p>C. County records are in paper form, and data must be extracted manually. In addition, personnel changes in the building division permitting section and the planning department make historical research challenging.</p>
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- 1. Will objectives be accomplished by June 30, 2012? Please describe some of the obstacles or challenges that have prevented the department from accomplishing objectives, and your strategies to address obstacles or challenges.**

**Please see matrix above for description of completion dates and audit-related challenges.**

## **Other Successes and Achievements**

The audit department's other successes and accomplishments within the last year are as follows:

1. The office utilized an innovative RFP approach to procuring the annual financial audits, resulting in savings of \$40,000 for the financial audit for FY2010-11. The audit was performed by N&K CPAs on its first year of a four-year contract. Presentation by N&K CPAs took place before the County Council on 12/15/11.
2. In 2007, the Association of Government Accountants (AGA) initiated a Citizen Centric Government Report which aims to bring citizens into discussions over local priorities by making government financial documents short and easy to understand. The report seeks to answer the question "Are we better off today than when we were last year?" The office issued the FY2009-10 Citizen Centric Report, the very first one issued in the State of Hawai'i. The report provided a reader-friendly version of the CAFR. The office also produced a FY2010-11 Citizen Centric Report that was submitted to the AGA for review.
3. The office achieved full staffing levels, hiring the Program Support Technician provided by the County Council in the last budget. This position provides valuable clerical and analytical assistance to the audit staff.

## **Challenges**

**ACCEPTANCE OF AUDIT FUNCTION:** During the past two fiscal years, the office has provided training sessions to heads of key county departments about the audit function in order to decrease apprehension about audits. In addition, we have implemented informal exit conferences prior to issuing draft reports, so we can discuss proposed audit findings with auditees, and make changes to the drafts, if necessary. Although these efforts have resulted in increased, positive auditee interaction, acceptance of the audit function requires more responsive attention.

**IMPAIRMENTS TO INDEPENDENCE:** Government auditing standards provide that audit organizations must be free from external impairments to independence. Such impairments occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures from management and employees of the audited entity or oversight organization. Examples of impairments experienced by the office are externally imposed restrictions on access to records, government officials, or other individuals needed to conduct the audit; and

restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities.

**LACK OF LEGAL REPRESENTATION:** The office does not have impartial legal representation to assist it in performing its functions. For example, we have seen the county attorney and the deputy county attorney assigned to represent the auditor's office appear in adversarial roles in audit investigations.

## **FY2012-13 Goals and Objectives**

***Goal: The department's goals are the same as the prior fiscal year.***

- Goal 1: To serve as a catalyst for positive change throughout county operations.
- Goal 2: To help ensure that the county's scarce resources are used effectively, efficiently and economically.
- Goal 3: To inspire public trust by safeguarding the county's financial integrity by having annual financial audits done by outside auditors and conducting in-house performance audits.

### ***Objectives:***

In order to achieve these goals and to address its challenges, the office has adopted the following objectives for FY2012-13 as follows.

1. Complete CAFR and present to County Council in December, 2012. (Goals 1, 2, 3)
2. Complete performance audits and pre-audit assessments. (Goals 1, 2)
3. Complete Citizen Centric Report for FY2011-12, submit for national recognition. (Goals 1 and 3)

## **Initiatives to Address Challenges:**

Challenge 1: **Acceptance of audit function.** The office will work toward greater acceptance of the audit function through educational presentations. The office plans to continue to offer to the county department heads, managers and supervisors a presentation regarding the audit process to help county employees better understand the role of the county auditor and the ways in which audits are typically conducted. The office will also continue to meet or exceed the Generally Accepted Government Auditing Standards (GAGAS) and other professional requirements for continuing education to maintain a level of professionalism that promotes greater acceptance of the audit function. The office will offer to make presentations to the public, through organizations such as the Kaua'i Chamber of Commerce, Filipino Chamber of

Commerce, Kauaʻi Planning Action Alliance (KPAA), to explain the role and responsibilities of the county auditor and the audit process. The office recently made a presentation to the Līhuʻe Business Association and received positive responses from members and attendees.

Challenge 2: **Impairments to independence.** The office hopes that its upcoming peer review will provide it with the opportunity to solicit outside input regarding this challenge. The GAGAS requires that an audit organization performing audits or attestation engagements must have an external peer review performed by reviewers independent of the audit organization at least once every three years. The external peer review can provide a reasonable basis for determining, for the period under review, whether the level of external impairments allows the office reasonable assurance of conforming to applicable professional standards.

Challenge 3: **Lack of legal representation.** The office intends to request that the county attorney provide special counsel to advise and represent the office during the coming fiscal year.

## **Office of the County Auditor Budget Overview**

The Office of the County Auditor's FY2012-13 budget of \$1,558,578 is \$190,419 or 10.9% lower than the FY2011-12 adjusted budget of \$1,748,997.

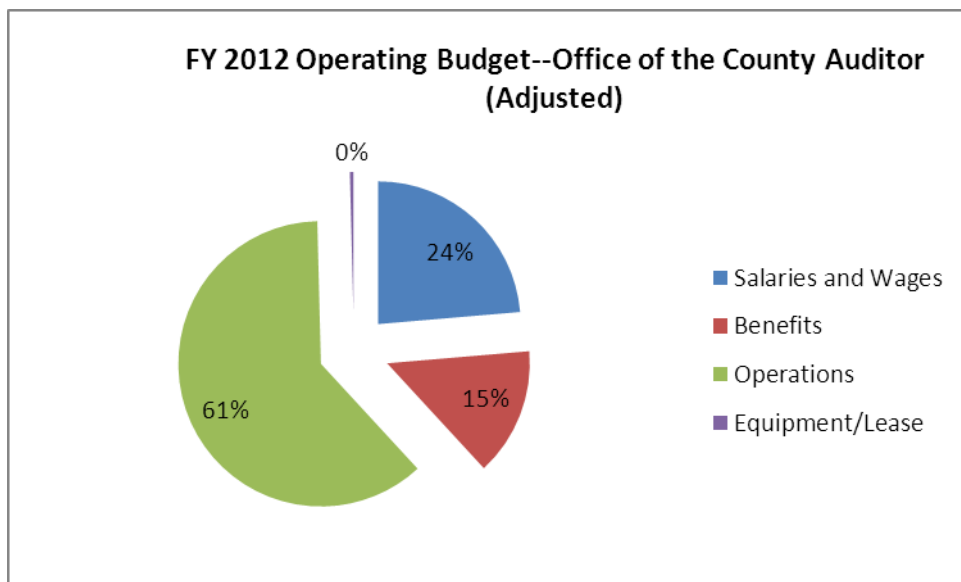
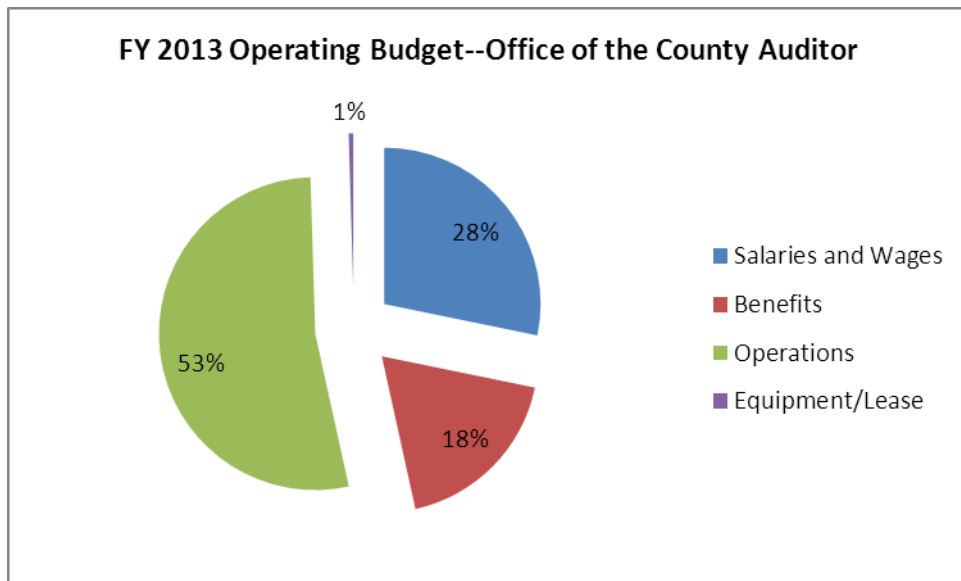
Significant changes from the prior year in the FY2012-13 budget are:

- Operations show a decrease of 23.2%. Budget for Operations of \$825,608 represents 53% whereas in FY2011-12, it comprised 61.5%.
- Salaries & Wages show an increase of 6.3%; which is primarily attributed to a reallocation.
- Benefits show an increase of 12.8%; due to increased wages and an increase in the benefit factor mandated by finance.

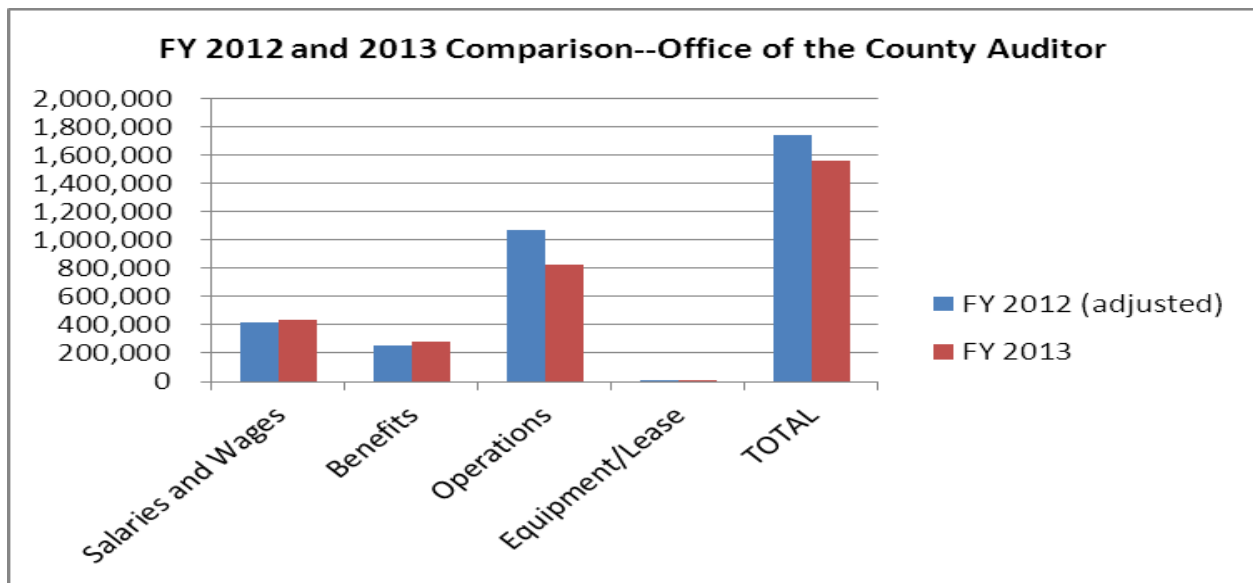
The budget includes \$25,000 for the procurement of outside auditors to perform a peer review of the office's completed audits and operating procedures, as required by government auditing standards.

The budget also includes \$10,000 for a dedicated server. During the AGA seminar held in Honolulu last year, the auditors of the jurisdictions in Hawaiʻi discussed the importance of having an independent server and adequate firewalls to provide security to sensitive audit files and communications. The other jurisdictions have such a system with the exception of the county of Kauaʻi. The budget for the proposed system was developed with the assistance of an auditor from the County of Hawaiʻi, who was the Systems Manager in Hawaiʻi county, and has been discussed with IT management.

## Comparative Graphs







Office of the County Auditor	FY 2012 (adjusted)	FY 2013	% + or -
Salaries and Wages	413,558	439,698	6.3%
Benefits	253,451	285,772	12.8%
Operations	1,074,883	825,608	-23.2%
Equipment/Lease	7,105	7,500	5.6%
<b>TOTAL</b>	<b>\$1,748,997</b>	<b>\$1,558,578</b>	<b>-10.9%</b>

## Succession Planning

1. List critical positions within your department with impending retirements or departures (within 2-3 years).

**None at this time.**

2. In general, describe education/training plan for these position(s).

**Not applicable.**

3. Please review the attached "Budget Proviso," relating to training. Would you recommend any changes to the proviso to enable you to train staff in critical positions?

**No.**

How many months of training in temporary positions are needed?

**Not applicable.**

## **Vacant Positions**

1. List positions that have been vacant within your department for more than one year.

**None.**

2. Describe why the vacancies have not been filled.

**Not applicable.**

3. Describe your plan to address hiring obstacles.

**Not applicable.**